M0145 / M0191 ELECTIVE: FIANCE: COMMODITY & DERIVATIVES MARKET.

TYBMS / 128

Q.P. Code :20044

[Time: $2\frac{1}{2}$ Hours] [Marks:75]

Please check whether you have got the right question paper.

N.B:
1. All Question are compulsory.
2. From questions 1 to 4 attempt any two of the internal options A, B and C.
3. Use of simple calculator is permitted.

Q.1 Attempt **Any Two** (7.5 marks each)

A. What is Commodity Market? Explain the reasons for investing in commodities. 7.5

B. Write a note on Derivative Market & its participants. 7.5

C. Explain the various features of derivative market. 7.5

Q.2 Attempt **Any Two** (7.5 marks each)

A. Explain the following terminologies 7.5
   i. Contract cycle
   ii. Initial Margin
   iii. limit order

B. Stock of Don Ltd is currently quoted on BSE at Rs.3157/-. Interest rate prevailing is 7% p.a. What future price will you quote for a 3 months futures contract on the stock Don Ltd. 7.5

C. Explain Cost of Carry model of futures pricing. 7.5

Q.3 Attempt **Any Two** (7.5 marks each)

A. Mrs. Rena is Bullish. She purchased reliance call options with strike price of Rs. 800/- at a premium of Rs.25. On expiry the spot price may be as follows: 725,750,775,800,825,850,875. 7.5
   i) Calculate the Profit/Loss & draw payoff diagram for the same

B. Explain the difference between futures & options 7.5

C. What is option premium? What are the factors affecting option premium? 7.5

Q.4 Attempt **Any Two** (7.5 marks each)

A. How the future contract is settled? 7.5

B. Explain the margin system in derivatives market 7.5

C. Explain various methods of measuring VaR. 7.5

Q.5 Case Study

A. Options are better hedging-and-trading tools than futures. Losses are limited for the buyer and costs are lower. In a futures contract, a trader will be required to pay an initial margin and also mark-to-market margin based on volatility in market price. In options, the outgo is limited to the premium the trader pays on the contract. So, if you want to lock-in the price of the commodity or want to bet, then options offers a cheaper and safer choice.

You can hedge your price risk effectively with options. Say, you, as a farmer can take long put option to sell 10 tonnes of maize at Rs.1,500 per quintal five months from now at a premium of Rs. 100 per quintal. If the price goes to Rs.1,300 (Contract becomes in-the-money) on contract expiry a profit of Rs. 200 (per quintal) will be credited to your bank account.

a) As per the above case, options contract is cheaper than futures contract. Why? (2)
b) How is hedging done using options contract? (2)
c) What is meant by short position and Long position in any contract (2)
d) What is margin? Why it is charged by exchange? (2)
e) In the above case if the price in market on expiry had been Rs. 1,600 then what would have been the profit /Loss for the farmer. (2)

Q. 5 B. Mr. Ravi has short position in two months futures contract of 100 shares of Reliance Ltd. at price of Rs. 750 per share. What will be the pay off if price per share on settlement date is any of the following: **(5)**
720, 730, 740, 750, 760, 770, 780

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